

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2001-245

December 2, 2002

MAINE PUBLIC UTILITIES COMMISSION
Investigation of Rate Design of
Transmission and Distribution
Utilities

ORDER APPROVING
STIPULATIONS
(CENTRAL MAINE
POWER COMPANY AND
BANGOR HYDRO-
ELECTRIC COMPANY)

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

By way of this Order, we approve two stipulations entered into between the parties to this proceeding and thus approve limited rate design changes for both Central Maine Power Company (CMP) and for Bangor Hydro-Electric Company (BHE).

II. BACKGROUND

On May 8, 2001 the Commission initiated this proceeding to investigate the rate designs of CMP, BHE and Maine Public Service Company (MPS).¹ As set forth in our Notice of Investigation, we decided to focus our investigation on the following issues:

- to what extent should revenues (T&D and stranded costs) that are currently recovered in per kWh charges be shifted into fixed and/or demand charges;
- should time-of-use periods be set to be consistent with industry standards (i.e., 5 x 16 on-peak period) and, if so, how should revenues be allocated among time periods;
- should seasonal differentials be reduced or eliminated; and
- should any rate design changes be phased-in and, if so, how should the phase-in be accomplished in light of expected decreases in distribution rates under CMP's ARP and the general decline in stranded costs over time.

¹ On August 20, 2002 the Commission issued an Order Approving Stipulation of Voluntary Dismissal (Maine Public Service Company) which granted MPS's motion to withdraw from this case without prejudice.

On April 16, 2002, both CMP and BHE filed their rate design proposals. In its proposal CMP recommended moving all stranded cost recovery for its Residential Rate A customers to fixed charges by the year 2005 and to increase the stranded cost service charge by \$2.00 per month annually for SGS customers, \$5.00 per month annually for MGS customers and \$20.00 per month annually for IGS and LGS customers. These increases to fixed charges would be done on a revenue neutral basis with the increase in fixed charges being offset by a decrease in stranded cost volumetric charges.

As part of its filing, CMP also submitted a probability-of-peak study. According to CMP, the results of the study no longer supported seasonally differentiated, winter peaking rates for CMP as a distribution delivery company. Therefore, CMP proposed flattening the differential between winter rates and summer rates both by targeting projected decreases under CMP's Alternative Rate Plan (ARP) towards winter rates and by shifting rates annually up to a point where no more than 5% of the customers in a rate class received more than a 5% increase. In the case of Residential Rate A, which is not seasonally differentiated, CMP recommended targeting the ARP decreases for the class solely towards the per kWh charges. CMP did not recommend any changes to its time-of-use periods.

As part of its filing, BHE also presented a probability-of-peak study. Like CMP, BHE concluded that the probability-of-peak data did not support a winter/summer differential. Unlike CMP, BHE's stranded cost rates are not currently seasonally differentiated. BHE did propose eliminating the seasonal differential in its distribution delivery rates immediately. BHE also proposed increasing its stranded cost fixed charge component and decreasing stranded cost volumetric charges for all of its rate classes over a five-year period until 50% of stranded cost revenues were recovered through the fixed charge.

The Office of the Public Advocate (OPA), Industrial Energy Consumer Group (IECG), Natural Resources Council of Maine (NRCM), Independent Energy Producers of Maine (IEPM), S.D. Warren (Warren), Calpine Construction (Calpine), and FPL Energy Maine (FPL) all filed testimony or comments in opposition to the rate design changes of both CMP and BHE.² In addition, Jean Carter, a CMP ratepayer filed comments on CMP's proposal.

Following the filing of the intervenor direct cases, a series of settlement conferences were convened by the Hearing Examiner. On October 25, 2002, CMP filed a Stipulation with the Commission proposing a resolution for CMP's portion of the case. On November 15, 2002, we received a Stipulation from BHE proposing to resolve all issues regarding BHE raised during this investigation. Both Stipulations were signed by the following parties: CMP, the OPA, the IECG, NRCM, IEPM, BHE, S.D. Warren and

² The comments of Warren, Calpine and FPL were made jointly by their attorney in this matter, Patrick Scully, Esq.

FPL. Jean Carter and Calpine Construction neither signed nor opposed the Stipulations.

III. DESCRIPTION OF STIPULATIONS

A. CMP

The parties to the CMP Stipulation propose that for both the residential and SGS customer classes the rate reduction projected to occur in 2003 under CMP's ARP 2000 be used to solely lower the kWh charges. In the case of SGS customer class, the kWh reduction will be applied to lower winter rates. For other customer classes with seasonally differentiated rates, except for the LGS-ST and LGS-T classes, the July, 2003 distribution rate reduction will be applied in equal proportion to reduce the winter kW and kWh rate components. For the LGS-ST and LGS-T classes the rate reduction will be applied entirely to the customer charge, the only distribution rate component for these customer classes.

For customers with seasonally differentiated rates any ARP 2000 rate reductions which occur after July, 2003 will be made in the same manner as the July, 2003 reduction. Future reductions in stranded costs for seasonally differentiated customers will also be made in the same fashion. For rates that are not seasonally differentiated, the reduction will be in accordance with the ARP 2000 Stipulation, or as further ordered by the Commission in either an ARP 2000 price adjustment case or a stranded cost recovery case.

The parties to the CMP Stipulation further agree that the establishment of service fee for establishing next day service during normal business hours shall be set at \$17.00 beginning December 1, 2002 and be set at \$87 for establishment of service during other than normal business hours or for same day service during normal business hours, excluding reconnections of accounts disconnected for non-payment which shall be billed at the next day service rate. The normal business hour fee shall increase by \$3 on December 1, 2004 and by \$3 on December 1, 2006. Incremental revenues received from December 1, 2002 through June 30, 2003 resulting from the fee increase will be deferred with carrying costs and used to reduce the distribution prices in the July, 2003 ARP 2000 price change. That proceeding shall also adjust rates to reflect incremental revenues resulting from the fee increase going forward from July 1, 2003. A similar rate change methodology will be used for subsequent fee changes.

B. BHE

The parties to BHE Stipulation agree that for any rate class with seasonally differentiated rates, the rate reductions projected to occur under the BHE ARP will be applied to the winter kW and kWh rate components, in equal proportion and in a revenue neutral manner. The ARP decreases will continue to be applied in this fashion until the seasonal differential for that class is eliminated. The parties agree to

make no rate design changes to BHE's stranded cost rates which currently are not differentiated by season.

IV. DECISION

To accept a stipulation the Commission must find that:

1. the parties joining the stipulation represent a sufficiently broad spectrum of interests that the Commission can be sure that there is no appearance or reality of disenfranchisement;
2. the process that led to the stipulation was fair to all parties; and
3. the stipulation result is reasonable and is not contrary to legislative mandates.

See *Central Maine Power Company, Proposed Increase in Rates*, Docket No. 92-345 (ii), Detailed Opinion and Subsidiary Findings (Me. P.U.C. Jan. 10, 1995), and *Maine Public Service company, Proposed Increase in Rates (Rate Design)*, Docket No. 95-052, Order (Me. P.U.C. June 26, 1996). We have also recognized that we have an obligation to ensure that the overall stipulated result is in the public interest. See *Northern Utilities, Inc., Proposed Environmental Response cost Recovery*, Docket No. 96-678, Order Approving Stipulation (Me. P.U.C. April 28, 1997).

All parties to this matter other than Calpine Construction and Ms. Carter were signatories to both of the Stipulations before us. These parties represent a broad spectrum of interests and we are thus satisfied that there has been no disenfranchisement here nor any appearance of disenfranchisement.

The only two non-signing parties to the Stipulation have neither objected to the substance of the Stipulations nor to the process that lead up to the Stipulations. Moreover there has not been any suggestion that the process that lead to the Stipulations was anything but open and fair to all parties. We are thus satisfied that our second criterion has also been satisfied here.

In the past, we have recognized the many different and often conflicting factors which must be considered in making rate design decisions and of the difficulty in balancing such factors. *Public Utilities Commission, Investigation of Central Maine Power Company's Stranded Costs, Transmission and Distribution Utility Revenue Requirements and Rate Design*, Docket No. 97-580, Order at 114 (March 19, 1999). While the rate design changes agreed to in these Stipulations are modest, based on the information presented here we find that the changes proposed are reasonable and are accomplished with no adverse bill impacts other than the modest changes recommended for CMP's establishment of service fees. With respect to the establishment of service fee, we would note our understanding that the "carrying costs" which will be applied to the revenue deferred as a result of the price change will be the Weighted Average Cost of Capital (WACC) approved in CMP's last rate case. In

addition, we understand that this deferral mechanism with these carrying costs will be applied when the establishment of service fees are increased in 2004 and 2006.

With this clarification, we find that the results of both Stipulations are reasonable in the public interest and consistent with legislative mandates.

Accordingly, it is

O R D E R E D

1. That the Stipulation filed by Central Maine Power Company on October 25, 2002 (a copy of which is attached hereto and marked Exhibit A) and the Stipulation filed by Bangor Hydro-Electric Company on November 15, 2002 (a copy of which is attached hereto and marked Exhibit B) are approved. The terms of these Stipulations are incorporated by reference herein

2. That the Director of Technical Analysis is delegated authority to approve changes to Central Maine Power Company's establishment of service fees made in compliance with this Order.

Dated at Augusta, Maine, this 2nd day of December, 2002.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Nugent
 Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.